



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
FORMER GRAVES COUNTY SHERIFF**

Calendar Year 1998

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

GRAVES COUNTY ROBERT MORGAN, FORMER GRAVES COUNTY SHERIFF CALENDAR YEAR 1998 FEE AUDIT

Financial Statement:

The Sheriff paid \$2,703 in excess fees to fiscal court.

Notes to Financial Statements:

There is a Special bank account, a War on Drugs bank account, and a COPS bank account. All had a zero balance at December 31, 1998.

Comments and Recommendations (In Audit Report):

- The Former Sheriff Should Have Required Depository Institutions To Provide Additional Collateral Of \$757,716 To Protect Deposits
- The Former Sheriff Should Have Maintained Adequate Accounting Records Pursuant To KRS 68.210, Uniform System Of Accounts

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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Tony Smith, Graves County Judge/Executive

Honorable John L. Davis, Graves County Sheriff

Honorable Robert Morgan, Former Graves County Sheriff

Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former Sheriff of Graves County, Kentucky, for the year ended December 31, 1998. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff's office is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former Sheriff for the year ended December 31, 1998, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Honorable Robert Morgan, Former Graves County Sheriff
Members of the Graves County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following areas of noncompliance:

- The Former Sheriff Should Have Required Depository Institutions To Provide Additional Collateral Of \$757,716 To Protect Deposits
- The Former Sheriff Should Have Maintained Adequate Accounting Records Pursuant To KRS 68.210, Uniform System of Accounts

In accordance with Government Auditing Standards, we have also issued a report dated July 5, 2000, on our consideration of the former Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 5, 2000

GRAVES COUNTY
ROBERT MORGAN, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1998

Receipts

Federal Grants		\$	88,050
State Grants			14,160
State Fees For Services:			
Finance and Administration Cabinet			17,179
Circuit Court Clerk:			
Sheriff Security Service	\$	19,005	
Fines and Fees Collected		<u>2,830</u>	21,835
Fiscal Court			37,841
County Clerk - Delinquent Taxes			6,236
Commission On Taxes Collected			231,241
Fees Collected For Services:			
Auto Inspections	\$	14,915	
Carrying Concealed Deadly Weapon Permits		3,020	
Sheriff Fee		468	
Advertising Cost		1,381	
Serving Papers		<u>24,696</u>	44,480
Other:			
Reimbursements	\$	25,724	
Miscellaneous		<u>5,362</u>	31,086
Interest Earned			4,819
Borrowed Money:			
State Advancement			<u>176,555</u>
Gross Receipts (Carried Forward)		\$	673,482

GRAVES COUNTY
 ROBERT MORGAN, FORMER SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1998
 (Continued)

Gross Receipts (Brought Forward)	\$	673,482
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Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$	215,948
Other Salaries		74,584
Close Out Salaries		11,502

Employee Benefits-

Employer's Share Social Security		24,134
Employer's Share Retirement		8,592

Contracted Services-

Advertising		1,503
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Materials and Supplies-

Office Materials and Supplies		1,445
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Auto Expense-

Gasoline		5,498
Mileage		93,051

Other Charges-

Postage		160
Jury Meals		570
K-9 Unit		150
Reimbursements		1,315
Carrying Concealed Deadly Weapon Permits		2,240
Miscellaneous		5,106

Debt Service:

State Advancement		<u>176,555</u>
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Total Disbursements		<u>622,353</u>
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Net Receipts	\$	51,429
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Less: Statutory Maximum		<u>48,726</u>
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Excess Fees Due County for Calendar Year 1998	\$	2,703
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Payments to County Treasurer - February 24, 1999		<u>2,703</u>
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Balance Due at Completion of Audit	\$	<u><u>0</u></u>
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The accompanying notes are an integral part of the financial statement.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the former Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

GRAVES COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 1998
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65..

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 4, 1998, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$757,716 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at December 4, 1998.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 3,045,223
Uncollateralized and uninsured	<u>757,716</u>
Total	<u><u>\$ 3,802,939</u></u>

Note 4. Special Account

At January 1, 1998, the former Sheriff had a balance of \$29 in the Special Account. The account received \$551 and disbursed \$580 during calendar year 1998. The account was closed out at December 31, 1998.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1998
(Continued)

Note 5. War On Drugs Account

At January 1, 1998, the former Sheriff had a balance of \$157 in the War on Drugs Account. It could not be determined when this account was opened or the source of this fund. This account had no receipts and disbursements of \$157 during calendar year 1998. The account was closed at December 31, 1998.

Note 6. Community Oriented Policing Services (COPS) Account

At January 1, 1998, the former Sheriff had a balance of \$25,079 in the COPS Grant Account. The account received federal grant receipts of \$71,580 and interest of \$867. Disbursements for calendar year 1998 were \$97,526. The account was closed at December 31, 1998.

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COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
ROBERT MORGAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

Calendar Year 1998

1) The Former Sheriff Should Have Required Depository Institutions To Provide Additional Collateral Of \$757,716 To Protect Deposits

On December 4, 1998, \$757,716 of the former Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the current Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Robert Morgan, Former Graves County Sheriff's Response:

None.

2) The Former Sheriff Should Have Maintained Adequate Accounting Records Pursuant To KRS 68.210, Uniform System of Accounts

The Uniform System of Accounts established under the authority of KRS 68.210, requires the Sheriff's office to keep and maintain adequate accounting records. During the audit of the former Sheriff's receipts and disbursements for calendar year 1999, we noted the following:

- a) Pre-numbered receipts were issued, but they were posted individually to the receipts ledger on a periodic basis. To determine that the deposit agrees with the ledger, you have to add individual receipts to determine a deposit total.
- b) Receipts were not deposited daily.
- c) Payroll records were not maintained in a manner for us to identify salary paid from grant funds.
- d) The receipts and disbursements ledgers had different categories than the former Sheriff's settlement or quarterly financial statement submitted to the Department for Local Government.

We recommend that the Sheriff's office maintain accurate and complete financial records in accordance with the Department For Local Governments prescribed policies and procedures.

Robert Morgan, Former Graves County Sheriff's Response:

None.

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff Should Have Maintained Adequate Accounting Records Pursuant to KRS 68.210, Uniform System of Accounts. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

PRIOR YEAR COMMENT AND RECOMMENDATION:

The prior year audit report contained a comment concerning inadequate pledges of securities to protect deposits. This has not been corrected and is included in current year audit.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Honorable Robert Morgan, Former Graves County Sheriff
Members of the Graves County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Graves County Sheriff as of December 31, 1998, and have issued our report thereon dated July 5, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Graves County Sheriff's financial statement as of December 31, 1998, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Required Depository Institutions To Provide Additional Collateral Of \$757,716 To Protect Deposits
- The Former Sheriff Should Have Maintained Adequate Accounting Records Pursuant To KRS 68.210, Uniform System Of Accounts

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Honorable Robert Morgan, Former Graves County Sheriff
Members of the Graves County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Maintained Adequate Accounting Records Pursuant To KRS 68.210, Uniform System Of Accounts

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, we consider to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 5, 2000

